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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

CIVIL DIVISION

DEC 17 1969

Dear Mr. Gullledge:

We have made a survey of the administration of cost certification procedures relating to the insurance of mortgage loans for multifamily housing projects by the San Francisco Insuring Office (SFIO) of the Federal Housing Administration (FHA), Department of Housing and Urban Development. Our survey was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67), and covered selected multifamily housing projects that were given final endorsement for mortgage loan insurance by SFIO between February 2, 1968, and July 3, 1969.

Cost certification procedures were established by FHA pursuant to the requirements of section 227 of the National Housing Act, as amended (12 U.S.C. 1715r). Section 227 of the act and FHA's applicable administrative regulations require that, upon completion of a multifamily housing project, the mortgagor must submit and certify to FHA a statement of the actual cost incurred in developing the project, including the cost of land, construction, architect's fees, and other related items. Section 227 further requires that any excess of insured mortgage loan proceeds over a specified percentage of certified costs must be applied to a reduction of the principal of the insured mortgage loan.

When the relationship between a mortgagor corporation and a builder is such that arm's-length dealings between the parties cannot be expected, FHA regulations require that the builder submit to the mortgagor, for inclusion with its statement of actual costs to FHA, a certification of the actual cost incurred by the builder in the construction of the project. FHA regulations also require that the costs certified by mortgagors and builders be paid in cash within 45 days of final endorsement of the project for mortgage loan insurance.

To test the effectiveness of SFIO's administration of FHA's cost certification procedures, we examined the cost certifications made by mortgagors and, where appropriate, builders of the six projects listed below and, to the extent we deemed necessary, reviewed the records of the mortgagors and builders related to the costs incurred to complete the projects.

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<u>Project number</u>	<u>Project name</u>	<u>Section of act under which mortgage loan is insured</u>	<u>Date of final endorsement</u>
(121 -)			
00100	Jackson Towers	207	2-29-68
32014	Cathedral Hill East	220	2- 2-68
55017NP	Crescent Park	221(d)(3)BMIR	3- 6-69
55019LD	Concord Green	221(d)(3)BMIR	10-14-68
55025LD	Marina Vista Phase I	221(d)(3)BMIR	4-23-68
55049LD	Marina Vista Phase II	221(d)(3)BMIR	1-24-69

Some of the items of cost to which mortgagors and/or builders certified in connection with the above projects appeared to be questionable for inclusion in the certifications to FHA. While it appeared that the disallowance of the cost items involved would not have resulted in a significant reduction of the amount of the mortgage loans endorsed for insurance, the items were discussed with officials of SFIO who indicated that they would consider our findings and take any action that may be required in that regard.

With respect to the FHA requirement that costs certified by mortgagors and builders be paid in cash within 45 days of final endorsement, we noted that follow-up action was not being taken by SFIO to obtain supplemental certifications from mortgagors and builders in those cases where costs certified at closing included unpaid items. FHA procedures require insuring offices to obtain such supplemental certifications.

After we brought this matter to the attention of SFIO officials, we were informed that a follow-up procedure had been initiated, and we were assured by these officials that it was being fully implemented.

It appears to us that a follow-up on unpaid items of cost is necessary to assure FHA that mortgage insurance proceeds (1) do not exceed the applicable legislative percentage of cost limitation and (2) are used only to liquidate the costs incurred to build the project. We therefore believe it would be in FHA's interest to circulate the results of our review of this matter at SFIO to all insuring offices as a means of emphasizing to them the need for adherence to the prescribed procedure for obtaining supplemental certifications.

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We appreciate the cooperation extended to our representatives during the survey. Please advise us of any actions taken or contemplated on the matters discussed herein.

A copy of this report is being furnished to the Secretary of Housing and Urban Development.

Stanley S. Sargol

for Max Hirschhorn
Associate Director

The Honorable Eugene A. Gullledge
Assistant Secretary-Commissioner
Federal Housing Administration
Department of Housing and Urban
Development

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